

Message Text

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ACTION EA-14

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OPIC-12 SP-03 TRSE-00 CIEP-03 LAB-06 SIL-01 SWF-02

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E.O. 11652 N/A

TAGS: ECON, JA

SUBJ: JAPAN'S ANTI-INFLATION TARGETS

REF: TOKYO 10693

1. SUMMARY: RECENT STATEMENTS BY MITI AND OTHER OFFICIALS INDICATE DOUBLE DIGIT INFLATION LIKELY TO CONTINUE AT LEAST THROUGH CURRENT JAPANESE FISCAL YEAR (JFY) ENDING MAR 31, 1975. END SUMMARY.

2. SUBSEQUENT TO MITI MINISTER NAKASONE'S STATEMENT TO AMBASSADOR AUG. 16 (REPORTED REFTEL) THAT GOJ POLICY AIMS AT HOLDING RATE OF INFLATION FOR 1974 NO HIGHER THAN 9.5 PERCENT OVER 1973, MITI OFFICIALS CONTACTED EMBASSY TO ADVISE THAT THIS WAS NAKASONE'S "PERSONAL" VIEW RATHER THAN OFFICIAL GOJ POLICY, ADDING THAT SENIOR OFFICIALS SAW NO WAY TO BRING RATE OF INFLATION DOWN SO QUICKLY AS 9.5 FOR WHOLE YEAR WOULD REQUIRE.

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3. IN AUG. 21 CONVERSATION WITH ASSISTANT SECRETARY-

DESIGNATE HABIB, MITI ADMINISTRATIVE VICE MINISTER
YAMASHITA STATED THAT GOJ TARGET IS TO HOLD WHOLESAL
PRICE INDEX (WPI) AT END OF MARCH 1975 TO LEVEL ABOUT
12 PERCENT ABOVE WPI OF MARCH 1974. NOTING STRENGTH
OF QTE WAGE-PUSH INFLATION UNQTE, YAMASHITA SAID THAT
IF WPI OF MARCH 1975 EXCEEDS WPI OF MARCH 1974 BY
20 PERCENT OR MORE, JAPAN'S INTERNATIONAL COMPETITIVE
POSITION WOULD BE IN SERIOUS JEOPARDY. YAMASHITA ALSO
VENTURED VIEW THAT YEN MIGHT WEAKEN FURTHER
BEFORE STABILIZING.

4. OTHER GOJ AS WELL AS PRIVATE INDUSTRY ANALYSTS ALSO
DIFFER ON PROBABLE RESULTS OF CURRENT ANTI-INFLATION
MEASURES BEING APPLIED BY GOJ. ECONOMIC PLANNING AGENCY
(EPA) WORKING ESTIMATES HAD PROJECTED WPI MARCH 1975 NO MORE
THAN 9.6 PERCENT ABOVE MARCH 1974. YOKOMIZO OF EPA EX-
PRESSED VIEW TO EMBOFFS THAT INFLATION BY WHATEVER NAME
(I.E. "DEMAND-PULL" OR "COST-PUSH") IS SUSCEPTIBLE TO
TIGHT MONEY REMEDY. ON THE OTHER HAND, VIEW OF JAPAN
ECONOMIC RESEARCH CENTER (JERC) AS EXPRESSED BY PRESIDENT
KANAMORI IN DISCUSSION WITH EMBOFFS HAS BEEN: (A) LIMITS
OF TIGHT MONEY POLICY TO CONTROL DEMAND PULL INFLATION
HAVE EFFECTIVELY BEEN REACHED; (B) SOME SELECTIVE EASING
OF CREDIT RESTRICTIONS IS NECESSARY IN ORDER TO AVOID
INFLATIONARY BOTTLENECKS CAUSED BY STOPPAGES IN PARTICU-
LAR INDUSTRIES; AND (C) REMAINING COST-PUSH FACTORS WILL
SUPPORT CONTINUING INFLATION AT APPROX 15 PERCENT ANNUAL
RATE. CURRENT PUBLISHED JERC PROJECTION ESTIMATES WPI
FOR MAR 75 MORE THAN 14 PERCENT ABOVE MAR 74.

5. EMBASSY COMMENT: DESPITE GENERAL RECOGNITION WITHIN
BOTH GOJ AND PRIVATE SECTOR OF IMPORTANCE OF CURBING
INFLATION, CONFLICTING VIEWS EXIST AS TO WHAT TARGET RATE
SHOULD BE SET AND HOW VIGOROUSLY IT SHOULD BE PURSUED
(SOME CONFLICTING CONSIDERATIONS INCLUDE BALANCE OF
PAYMENTS AND AVOIDANCE OF DOMESTIC STAGNATION).
SPECIFICALLY IT IS BY NO MEANS CLEAR THAT MEASURES NOW IN
EFFECT WILL BE SUFFICIENT TO BRING ABOUT A DRASTIC LOWERING
OF CURRENT INFLATION RATES (WPI AND CPI UP FROM 112.6 TO
152.4 AND 123.0 TO 152.0 RESPECTIVELY FROM JUNE 1973
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TO JUNE 1974)
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